CORPORATION DE GAZ NATUREL DU QUÉBEC • NORTHERN ONTARIO NATURAL GAS • TWIN CITY GAS • LAKELAND NATURAL GAS • LE GAZ PROVINCIAL DU NORD DE QUÉBEC LTÉE • CHAMPION PIPE LINE CORPORATION LIMITED • GREATER WINNIPEG GAS COMPANY • CANADIAN INDUSTRIAL GAS & OIL LTD.

NORTHERN AND CENTRAL GAS CORPORATION LIMITED

ANNUAL REPORT

1967

Montreal, one of North America's most dynamic cities—and Canada's largest population centre—is served by Quebec Natural Gas Corporation, now one of the Northern and Central group.

$25 million (Canadian) 6.5% debenture issue, with warrants, was placed in Canada. In August, $6.5 million (U.S.) 6% subordinated notes, with warrants, were marketed in New York and $33 million of 6% convertible second preference shares were placed in Canada. Your management expects to defer a previously planned $25 million placement of first mortgage bonds by negotiating short term credit accommodation which, with anticipated cash flow, should cover financial requirements through 1968.

On August 1, the Northern Ontario Natural Gas Division purchased the propane-air distribution system of Great Northern Gas Company Limited at Sault Ste. Marie, Ontario. It is expected that natural gas will be available to this prosperous steel centre of 74,000 population by November 1, 1968. The potential market inherent in Sault Ste. Marie should add substantially to the future revenues of Northern and Central.

Gas supplies for the next few years have been greatly augmented by the certification of the Great Lakes transmission project by all authorities. However, future long-term gas supplies continue to be of concern as your management believes that incremental growth of the Eastern Canadian market will be substantially faster and larger than supplies presently in view can accommodate. Such future supplies will involve increased transmission capacities and the development of additional reserves. A primary goal of the Company is the development of an intelligent and dynamic solution to this problem which will assure continued growth and progress.

The first six months of 1967 have been a period of expansion and progress for your Company. Your directors anticipate that the remainder of the year will reflect the advances made to date.

C. SPENCER CLARK
Chairman of the Board

EDMUND C. BOVEY
President

August 15, 1967.

AR18

NORTHERN AND CENTRAL GAS COMPANY LIMITED
170 University Avenue, Toronto 1, Ontario

Northern Ontario Natural Gas
A Division of Northern and Central Gas Company Limited,
170 University Avenue, Toronto 1, Ontario

Twin City Gas Company Limited
135-137 North Syndicate Avenue, Fort William, Ontario

Lakeland Natural Gas Limited
P.O. Box 1087, Gardiners Road, Kingston, Ontario

Greater Winnipeg Gas Company
265 Notre Dame Avenue, Winnipeg 2, Manitoba

Le Gaz Provincial du Nord de Québec Ltée
9 est rue Perreault, Rouyn, Québec.

Champion Pipe Line Corporation Limited
170 University Avenue, Toronto 1, Ontario

Canadian Industrial Gas & Oil Ltd.
640 Eighth Avenue, S.W., Calgary, Alberta

Quebec Natural Gas Corporation
1717 du Havre St., Montreal 3, Québec

Northern Ontario Acceptance Company Limited
170 University Avenue, Toronto 1, Ontario

Compagnie de Finance du Nord du Québec Limitée
9 est rue Perreault, Rouyn, Québec

Nortwin Development Company Limited
170 University Avenue, Toronto 1, Ontario

Northern and Central Realty Limited
170 University Avenue, Toronto 1, Ontario

An integrated energy Company
serving Canada from Quebec
to British Columbia.

Printed in Canada

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NORTHERN AND CENTRAL GAS COMPANY LIMITED

INTERIM REPORT

for the
six months ended June 30, 1967

Northern and Central Gas Company Limited

Combined Statement of Income (Unaudited)

($000's omitted)	12 Months Ended June 30 1967	12 Months Ended June 30 1966	6 Months Ended June 30 1967	6 Months Ended June 30 1966
Operating Revenues	$120,046	$109,461	$67,773	$61,489
Operating Expenses				
Operations and maintenance	81,561	72,315	42,542	38,172
Depreciation, depletion and amortization	9,620	8,730	5,096	4,655
Taxes, other than income taxes	3,032	2,539	1,676	1,382
Provision for income taxes	2,078	1,352	2,430	1,795
	96,291	84,936	51,744	46,004
Operating Income	23,755	24,525	16,029	15,485
Other Income	1,906	846	855	394
Total Operating and Other Income	25,661	25,371	16,884	15,879
Interest and Other Deductions				
Interest, less amounts capitalized	10,927	9,946	5,671	5,002
Amortization of finance expenses	406	348	206	163
Provision for minority interest, including preferred dividends of subsidiaries	2,124	2,376	1,589	1,622
Other, including loss on U.S. exchange	119	59	41	42
	13,576	12,729	7,507	6,829
Net Income	$ 12,085	$ 12,642	$ 9,377	$ 9,050
Dividends on Preference Shares	$ 2,724	$ 2,724	$ 1,362	$ 1,362
Earnings Available for Common Shares	$ 9,361	$ 9,918	$ 8,015	$ 7,688
Earnings per Common Share	$ .82	$ .87	$ .70	$ .67

Notes:

1. The above statement combines the operating results of Northern and Central Gas Company Limited (the "Company") and all its subsidiaries on the basis that the Company's percentage of ownership at June 30, 1967 was held throughout the periods reported. Accordingly, the provision for minority interests through the periods comprises:
(1) Preferred dividends of subsidiary companies, and
(2) Earnings available to the minority shareholders of subsidiary companies at 9.43% for Canadian Industrial Gas & Oil Ltd., 0.96% for Twin City Gas Company Limited, 0.93% for Lakeland Natural Gas Limited and Greater Winnipeg Gas Company and 35.32% for Quebec Natural Gas Corporation. Due to the complexities resulting from the acquisition of subsidiary companies during the periods reported upon, a statement of source and application of funds has not been included.

2. The provision for income taxes has been estimated on the basis of taxes payable.

3. Other income includes non-recurring gains of a subsidiary company in the amount of $768,119 for the twelve months ended June 30, 1967 and $325,063 for the six months ended June 30, 1967.

To the Shareholders:

This interim report shows combined pro-forma results of the Company's operations for the twelve and six month periods ended June 30, 1967 and June 30, 1966. The figures are presented as if your Company's 65% interest in Quebec Natural Gas Corporation applied during the entire six and twelve month periods of 1966 and 1967—rather than from the date of acquisition, March 23, 1967.

Operating revenues for the twelve month period were $120,046,000—an increase of 9% over the same period in 1966. Earnings per common share were 82c—compared to 87c in the previous period. This moderate reduction for the twelve months was the result of a prolonged strike experienced by Quebec Natural Gas prior to the purchase of a majority position in March. For the six-month period, earnings per common share were 70c this year—compared to 67c for the previous period.

More than 9,430 new customers have been acquired within the utility group since January 1, 1967 and utility operations have benefited from colder than normal weather throughout the system.

Since the Company assumed management of Quebec Natural Gas, progress has been made in implementing plans for accelerated marketing activity, main extensions to new housing developments and a program for improved efficiency and safety standards. Canadian Industrial Gas & Oil Ltd. results have been excellent for the six months and have combined favourable explorations and improved oil production with increased industrial gas sales and further expansion of propane (LPG) deliveries.

The 1967 capital construction program is on schedule and within budget. The 84 mile transmission line from Vermilion Bay to Bruce Lake, in Northwestern Ontario, to service the Steel Company of Canada's iron ore pelletizing plant was completed two weeks in advance of schedule. The town of Atikokan, in the Steep Rock iron range, has been piped and more than 450 new customers have already signed for service.

The strong financial position of your Company has been well substantiated in three successful underwritings since the beginning of the year, notwithstanding a difficult money market in Canada and the United States. In June, a

ANNUAL REPORT SUMMARY

		1967	1966
Earnings per common share(1) (2)		84¢	78¢
Net income (1)		$ 12,441,000	$ 11,444,960
Earnings available for common shares(1)		$ 9,601,830	$ 8,704,566
Dividends paid on common shares		$ 4,431,394	$ 3,020,920
Dividend rate per common share		40¢	36¢
Total operating revenue(1)		$124,333,000	$113,669,000
Property, plant and equipment(1)		$375,434,000	$331,219,000
Common shares outstanding at year-end		11,430,586	11,126,604
Reserves	oil (barrels)	43,800,000	41,900,000
	gas (mcf)	590,000,000	525,000,000
Oil and gas properties	gross acres	8,411,515	8,827,548
	net acres	2,802,253	3,074,010

(1) Restated to include all acquisitions as though the percentage ownership held at December 31, 1967, was held throughout 1966 and 1967.

(2) Reported earnings for 1966, exclusive of Quebec Natural Gas Corporation, were 90¢ per share.
Consolidated net earnings for 1967, based on year-end outstanding common shares, were 87¢ per share.

CONTENTS

Summary . . . 1

Directors and officers . . . 2

Report to shareholders . . . 3

- Ontario Division of Northern and Central Gas Corporation Limited . . . 5
- Greater Winnipeg Gas Company . . . 7
- Quebec Natural Gas Corporation . . . 8
- Canadian Industrial Gas & Oil Ltd. . . . 9

Consolidated statement of income and retained earnings . . . 11

Consolidated balance sheet . . . 12

Consolidated statement of source and application of funds . . . 14

Statement of long-term debt . . . 15

Notes to the consolidated financial statements . . . 16

Auditors' report . . . 19

Quebec Natural Gas Corporation, consolidated statement of income . . . 20

Quebec Natural Gas Corporation, notes to the consolidated statement of income . . . 21

Northern and Central group of companies . . . 22

Eight year statistical comparison . . . 23

System map . . . 25

DIRECTORS

E. Ryckman Alexander, *First Vice-President,*
Sun Life Assurance Company of Canada,
Montreal, Quebec.

*__Edmund C. Bovey,__ *President,*
Northern and Central Gas Corporation Limited,
Toronto, Ontario.

John D. Bryce, *President,*
Macassa Gold Mines Limited,
Toronto, Ontario.

*__C. Spencer Clark,__ *Chairman of the Board,*
Northern and Central Gas Corporation Limited,
Toronto, Ontario.

Robert B. Craddock, *Chairman of the Board,*
Quebec Natural Gas Corporation,
Montreal, Quebec.

*__Peter D. Curry,__ *President,*
Peter D. Curry & Co. Ltd.,
Winnipeg, Manitoba.

M. Clifford Deans, *Chairman of the Board,*
Bankers Bond Corporation Limited,
Toronto, Ontario.

*__Edward A. Galvin,__ *President,*
Canadian Industrial Gas & Oil Ltd.,
Calgary, Alberta.

A. Searle Leach, *Chairman of the Board,*
Federal Grain Limited,
Winnipeg, Manitoba.

V. Theodore Low, *Partner,*
Bear, Stearns & Co.,
New York, N.Y.

Donald McKelvie, *President & General Manager,*
Northern Telephone Limited,
New Liskeard, Ontario.

*__Harold C. F. Mockridge, Q.C.,__ *Partner,*
Osler, Hoskin & Harcourt,
Toronto 1, Ontario.

Blancke Noyes, *Partner,*
Hornblower & Weeks-Hemphill, Noyes,
New York, N.Y.

Theodore O. Peterson, *Chairman of the Board,*
The Investors Group,
Winnipeg, Manitoba.

Peter N. Thomson, *Chairman,*
Power Corporation of Canada, Limited,
Montreal, Quebec.

*__William I. M. Turner, Jr.,__ *President,*
Power Corporation of Canada, Limited,
Montreal, Quebec.

John R. Yarnell, *Vice-President,*
Consolidated-Bathurst Limited,
Montreal, Quebec.

*Member of Executive Committee

OFFICERS

HEAD OFFICE

C. Spencer Clark, *Chairman of the Board*

Edmund C. Bovey, *President*

Donald G. Clark, *Executive Vice-President*

Adolph M. Hove, *Senior Vice-President & Chief Engineer*

Harold E. Andrews, *Vice-President, Finance*

W. Ralph Howard, *Vice-President, Legal and Secretary*

Alick S. G. Duguid, *Treasurer*

Peter F. Scully, *Assistant Secretary*

DIVISIONS

ONTARIO
Jean-J. Leroux
Executive Vice-President, Ontario
F. Irving Yewman
Vice-President and General Manager, Ontario

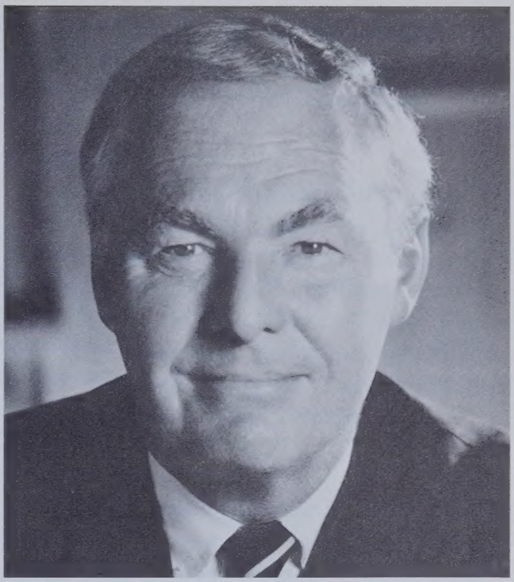
MANITOBA
Arthur R. Elliott
Senior Vice-President, Winnipeg
President, Greater Winnipeg Gas Company

QUEBEC
Robert B. Craddock
Senior Vice-President, Quebec
Chairman of the Board,
Quebec Natural Gas Corporation

ALBERTA
Edward A. Galvin
Executive Vice-President, Production
President, Canadian Industrial Gas & Oil Ltd.

REPORT TO SHAREHOLDERS

C. Spencer Clark



Edmund C. Bovey

Results

The year 1967 was one of very important expansion for your Corporation. It was marked by the successful acquisition of approximately 65% of the outstanding common shares of Quebec Natural Gas Corporation and the purchase of the Sault Ste. Marie gas system. These two acquisitions provide a major contribution to the growth potential of the Corporation.

The accounts of the Corporation as presented in this report reflect the results from the dates of acquisition. Consolidated net earnings for the year were 87¢ per share, based on year-end outstanding common shares. Combined pro-forma earnings, including Quebec Natural Gas Corporation for the entire year together with applicable costs, were 84¢ per share, compared to 78¢ per share for 1966, when calculated on an identical basis. Combined pro-forma earnings for 1966, exclusive of Quebec Natural Gas Corporation, were 90¢ per share.

Province of Quebec

Quebec Natural Gas Corporation's contribution to the 1967 earnings was adversely affected by a strike in late 1966. The dispute was resolved by a two-year wage agreement. A rate increase granted by the Electricity and Gas Board of the Province of Quebec, effective January 1, 1968, together with accelerated market penetration of the Montreal area, will make an immediate contribution to higher earnings per share for both Quebec Natural Gas and Northern and Central Gas.

The propane-air system of the City of Sherbrooke, in Quebec, was purchased during the year in preparation for the planned expansion east of Montreal into the Eastern Townships and along the north shore of the St. Lawrence River to Quebec City. Provincial authorities have been requested to pass enabling legislation, appropriate under the laws of Quebec, and favourable action is expected in the near future. This expansion visualizes an orderly project, phased over a five-year period, which will bring natural gas service to the last large industrial and population centre in North America not yet served by this form of energy.

Your directors believe that investment capital will find itself increasingly welcome in Quebec as continuously higher economic levels are achieved by the population of that province. Industries and utilities which contribute to the individual consumer's standard of living are essential to progress. Your directors consider that it is Quebec's present self-awareness, together with the logic of self-interest, which makes that province a desirable area for capital investment.

Amalgamation

The Corporation is the continuing company resulting from the amalgamation on January 1, 1968, of Northern and Central Gas Company Limited and its two subsidiaries, Twin City Gas Company Limited and Lakeland Natural Gas Limited. The Ontario utility operations formerly carried on by these three companies now comprise the Ontario Division, one of the four profit centers within the

Northern and Central group of companies. The others are Manitoba (Greater Winnipeg Gas Company), Alberta (Canadian Industrial Gas & Oil Ltd.) and Quebec (Quebec Natural Gas Corporation).

Finance

In a further step toward strengthening the financial structure of your Corporation, management has initiated amendments to the first mortgage bond indenture that will allow a more flexible and consistent method of operation. This will expedite the issuance of first mortgage bonds, their covenants, and the ability to flow through earnings of the subsidiaries to shareholders. These amendments should be completed by the time of the annual meeting.

Bank credit for a 1968 capital budget of $45,000,000 has been arranged. This line of credit will enable the Corporation to complete its capital program without additional financing. However, if market conditions warrant, long term debt may be issued during 1968. The present financial structure of the Corporation will allow the issuance of such debt without additional equity being required.

Organization

Northern and Central has a skilled and experienced executive group with the necessary depth to perform its function. The underlying financial structure of the Corporation remains sound and its securities enjoy a wide acceptance.

Further progress was made during the year in reducing operating costs. A central budget operation was initiated which will provide continuous and immediate information regarding performance of the four profit centres. It is planned to consolidate all utility customer billing during 1968 and to develop procedures that will standardize all general accounting operations by early 1969. Geographical and functional diversification continues to be an important factor in the earnings growth of the Corporation.

Gas Supply

The certification and construction of the first phase of the Great Lakes Gas Transmission project has served to provide more gas during this present winter. Completion of the Great Lakes project in 1968 will provide adequate supplies for the short term, including natural gas service for the Sault Ste. Marie system. The long term situation, however, while fundamentally secure, requires serious consideration by producers, transmission companies, distributors and regulatory authorities. Gas discoveries in Western Canada have not kept pace with Eastern Canada's market growth and the rate of discovery must be increased, or other sources of natural gas will have to be found. Management's purpose is to ensure that adequate gas supplies are available to meet Northern and Central's market growth.

Trans-Canada Pipe Lines Limited is, at present, the Corporation's only source of gas supply. However, with the potential available to Trans-Canada and, if necessary, with other alternatives, management is confident that future requirements will not only be met, but will be available at competitive prices.

Summary

In gratefully acknowledging the contribution made by all officers and employees of the Northern and Central group, the attention of shareholders is drawn to the detailed reports of the activities of the Corporation's divisions in the following pages of the annual report.

The interest and support of shareholders is especially appreciated by the directors and management who look forward with optimism to 1968 and to continued growth of the Corporation.

C. Spencer Clark

C. Spencer Clark
Chairman of the Board

E. C. Bovey
President

February 29, 1968

ONTARIO DIVISION OF NORTHERN AND CENTRAL GAS CORPORATION LIMITED

Jean-J. Leroux

Organization

The Ontario Division was formed to operate as one of the four profit centres of the Corporation and was the result of the amalgamation of the Northern Ontario Natural Gas Division, Twin City Gas Company Limited and Lakeland Natural Gas Limited. This corporate consolidation of all the activities and results pertaining to the distribution of natural gas in Ontario is centred under one senior executive reporting to the president of Northern and Central Gas Corporation Limited.

The new organization retains locally the operating names of Northern Ontario Natural Gas, Twin City Gas and Lakeland Natural Gas.

Results

Operating revenue increased 16.3% to \$41,545,000 and net income increased by 8.7% to \$3,901,000. Volume sold was 65,425,000 mcf in 1967, compared to 56,310,000 mcf in 1966.

The Ontario Division obtained 5,161 new customers in 1967.

A major achievement in residential sales was the conversion to natural gas, in the first year, of 80% of a potential 1,000 customers in Atikokan, in Northwestern Ontario. The community of Ear Falls was served from the Bruce Lake lateral and all of the 70 houses built to date are heated by gas. This community will have a potential of more than 400 homes within a few years. A new Sault Ste. Marie sub-division of 100 homes was provided with temporary propane service.

Existing industrial customers provided much of the increase in industrial sales volume. Dryden Paper Company Limited increased contracted firm service from 2,500 to 5,500 mcf/day. Caland Ore Company Limited and the Adams Mine of Jones & Laughlin Mining Company, Ltd. both increased production by about 10%, with proportionate increases in gas usage. Spruce Falls Power & Paper Company Limited added a new paper machine to the Kapuskasing mill.

New industrial customers include The Griffith Mine of the Steel Company of Canada, Limited at Bruce Lake, the Sherman Mine of Cliffs of Canada, Ltd. at Timagami and Corning Glass Works of Canada Ltd. at Bracebridge. Chemcell (Cornwall) Limited began using firm service at the rate of 2,300 mcf/day in January, 1967.

Allied Chemical of Canada Ltd. has recently entered into a contract for 7,400 mcf/day for a major new chemical-metallurgical plant in the Sudbury Basin. Contract negotiations are presently underway with Kraft Foods Limited, at Ingleside, and with Canada Foils Limited at Bracebridge.

Marketing

Residential and commercial sales programs were based on dealer participation in 1967 and these active dealer support programs will be continued into 1968. Emphasis for customer acquisition will continue to be placed on those areas with the largest potential on main and sales promotions and manpower will be concentrated in these areas.

Construction

Capital expenditures in 1967 of \$16,331,243 were made to bring gas service to new customers and to new areas, to improve existing distribution facilities and to provide for increased efficiencies in gas distribution. The major projects were:

- The construction of the Atikokan town lateral which required 7.1 miles of 6 and 8 inch transmission line and construction of the Atikokan distribution system.
- An eighty-mile, 8 inch transmission line was constructed to serve The Griffith Mine at Bruce Lake and a short lateral and distribution system were constructed to serve the community of Ear Falls.
- Extensive improvements were made to the distribution system and propane-air plant in Sault Ste. Marie.
- A major feeder main, consisting of two miles of 8 inch pipe, was installed to supplement the North Bay distribution system and to provide flexibility in serving new industrial and commercial customers.
- The construction of a distribution system to serve 235 homes in the Middleton Park Armed Forces housing project at Trenton.
- The first phase of a distribution system to serve Brunetville, near Kapuskasing, was completed.
- The redesign and relocation of the Fort William town border station and connecting lines, together with alterations to the station telemetering system.
- New business and operations buildings were constructed at Atikokan, Matheson, Huntsville and Bracebridge. Renovations were begun at the North Bay service centre.

Gas Supply

The Division maintained a 94% load factor throughout the year. On November 1, 1967, total contracted daily demand was increased by 22,800 mcf. These quantities, plus contracted peak supply arrangements for additional gas, were sufficient to meet maximum

Construction of the Company's liquefied natural gas storage plant in Northern Ontario is scheduled for completion in July, 1968. This peak shaving storage facility will provide the Company with important economies through improved load balance. Shown here, the plant is approximately 65% completed.

firm requirements during a recent period when record low temperatures were recorded. Contracts negotiated, provisional to completion of the Great Lakes Gas Transmission project, will provide sufficient quantities of gas to meet expected growth in 1968.

Completion of the liquefied natural gas peak shaving plant on the Sudbury lateral is expected in July, 1968, and construction is presently on schedule. This facility, with a capacity of 600,000,000 cubic feet of gas, will be available for peaking requirements, in addition to the contracted demand, during the heating season.

Acquisition

The assets in Sault Ste. Marie, Ontario, of Great Northern Gas Company, Limited, which distributed liquefied petroleum gas (propane) in that community, were acquired during the year. The Sault Ste. Marie area is the largest concentrated market in the Ontario Division not yet served by natural gas. In addition to acquiring some 2,400 existing customers, a present potential of 13,000 users is available in this city of 73,800 people. The Algoma Steel Corporation, Limited and Abitibi Paper Company Limited are both located in Sault Ste. Marie, as well as several other important industries. Natural gas is expected to reach Sault Ste. Marie in November, 1968, as part of the Great Lakes Gas Transmission project.

Regulatory Decision

The Ontario Energy Board completed a rate base and rate of return hearing of Lakeland Natural Gas Limited in 1967. The Board's decision was most favourable and found that an 8.1% rate of return was reasonable and not excessive. No maximum allowable rate of return was established.

Personnel

The total number of employees in the Ontario Division, as at December 31, 1967, was 433 as compared with the December 31,1966, figure of 425. Although this figure includes personnel necessary for the newly-acquired Sault Ste. Marie system, better training and increased efficiencies in management and supervision has held the overall increase to a minimum.

Summary

The economy of the area of Ontario served by the Division remained at a high level throughout 1967 and this is expected to continue through 1968.

J.-J. Leroux
Executive Vice-President, Ontario

GREATER WINNIPEG GAS COMPANY

Arthur R. Elliott

Results

Greater Winnipeg Gas Company continued to make substantial progress during 1967. Annual revenue of $23,875,000 was 6.6% higher than 1966. Net income was $3,060,000, 4.5% greater than the previous year. The total number of active customers increased 6.7% to 93,602 at year end. A total of 5,898 new customers, and approximately 21,000 units of natural gas equipment, were added to the system during the year.

Marketing

The Company continued an active sales program to promote the further use of gas through a well-established dealer organization. Co-operative sales campaigns obtained maximum gas load gains in new housing and in existing homes. The home service department assisted appliance sales by demonstrating gas equipment in homes, schools and retail stores.

The Canadian Armed Forces Base at Stevenson Field and the Weston Shops of the Canadian Pacific Railway Company were among major commercial customers added to the distribution system.

Construction

The 36 mile transmission line from Selkirk to Gimli was the major construction project of the year. This line was completed in November, 1967, and made service available to the new Calvert's of Canada Ltd. distillery which is now under construction. The line will also serve the communities of Gimli and Winnipeg Beach when distribution systems are built in these communities during 1968.

The Company constructed an additional 59 miles of distribution mains, installed services for new customers and increased the use of rental water heaters and conversion burners by more than 5,300 and 1,500 units, respectively. Total capital expenditures for 1967 were $4,707,858.

Gas Supply

The Company's maximum daily sendout in 1967 was 215,094 mcf, which occurred during January. Propane peak shaving and pipe line peaking service were available to supply firm load requirements in excess of the contract demand. The Company's propane peak shaving facilities were effective throughout the year in reducing the cost of gas supply.

Regulatory Hearing

The Public Utilities Board of Manitoba instituted a rate hearing in 1966 based on the test year ended December 31, 1965. The hearings were adjourned on February 5, 1968, and an order is expected later this year.

Taxes

Municipal, business, property and education taxes were $1,100,000 in 1967, $256,000 higher than similar taxes paid in 1966. This increase was caused, in part, by property additions during the year and by higher mill rates. However, the primary reason for the substantial increase was the introduction of a property tax by the Provincial Government, principally for education purposes, which contained an increased mill rate levied against industrial and commercial properties. The provincial 5% sales tax introduced on June 1, 1967, has indirectly affected Company costs. However, this tax does not apply to gas sales as a tax on gas and other fuels, as well as on telephone service, was introduced by the province in January, 1966.

Finance

The Company financed its capital expansion with funds generated internally and by normal bank accommodation.

Personnel

Mr. A. P. Rathke joined the Company in January, 1967, as vice-president, operations. He had previously been vice-president, engineering for Northern and Central Gas Company Limited. Mr. A. A. Irwin joined the Company in November, 1967, as vice-president, marketing and development. Mr. Irwin had been vice-president and general manager of Lakeland Natural Gas Limited.

The number of employees on December 31, 1967, was 377 of whom 134 had been with the Company for ten or more years. Total number of employees at the end of 1966 was 367. The Company signed a two-year contract with the Manitoba Gas Workers' Local 9-681 of the Oil, Chemical and Atomic Workers' International Union, CLC, effective April 1, 1967.

Summary

Both primary and secondary industries continue to locate in the Greater Winnipeg area and contribute to the economic growth and stability of Canada's fourth largest population centre. Forecasts indicate that the Company can anticipate another year of continued growth and expansion in 1968.

A. R. Elliott
President, Greater Winnipeg Gas Company

QUEBEC
NATURAL GAS
CORPORATION

Robert B. Craddock

Organization

Controlling interest in Quebec Natural Gas Corporation was acquired on March 23, 1967, by Northern and Central Gas Corporation Limited. Shortly after, R. B. Craddock was appointed chairman and chief executive officer of the Company. Subsequently, R. R. Colpitts, A. E. Sharp and H. C. Neal, previously vice-presidents of Northern and Central, were appointed group vice-presidents of gas supply and industrial sales, operations, and marketing, respectively. Other changes were made in the organization structure for better control and efficiency.

Results

Net income was $1,777,473, compared with $1,868,139 for 1966. The reduction in net income was largely attributable to a prolonged strike. This strike also seriously affected the operations and profit of the coke plant. Gas sales revenues were $37,200,489, with 48.2% derived from residential customers. Volume sold was 40,500,000 mcf.

Earnings for 1968 are expected to be sharply higher as a result of a revision in gas rates approved December 21, 1967, by the Electricity and Gas Board of the Province of Quebec, effective January 1, 1968, and by accelerated market penetration, load upgrading and by operating economies.

At December 31, 1967, Quebec Natural Gas was serving 202,202 residential customers. Of these, 85,750 used gas for heating, a gain of 4,224 during the year.

Marketing

The Company introduced a new sales policy consisting of a strong dealer organization to sell new equipment and appliance rental contracts. Through this policy, 18,169 gas appliances were sold or leased from May 1st to year end, as compared with 11,296 for all of 1966. In the last four months of 1967, installations were more than double the number installed in the similar period of 1966. Over 35,000 appliances are expected to be sold in 1968, including a much larger portion of the new construction market. Natural gas service is expected to be sold to 17,500 new heating customers during the present year.

Sale of gas for industrial purposes was held in balance with supply available so that a load factor of almost 100% was maintained throughout the year.

Construction

Programs are being energetically pursued to improve the efficiency and safety of the distribution system and to increase capacity of the low pressure cast iron mains to meet the ever-growing demand from heating customers. Additional outlets from the high pressure system are being provided at strategic points so as to make more gas available to customers connected to the old system.

A large diameter cross-town feeder line in downtown Montreal will be installed in 1968. This will be an important adjunct to the system as it will permit the lowering of pressures in cast iron pipe and will enable the Company to supply large volume customers in the downtown area.

An expanded specialized operations group is doing effective work in system modernization and leak detection. This program has the highest priority.

Capital Expenditures

Expenditures were $11,581,861 during the year for main extensions, system renewal and improvement, rental equipment on customers' premises and for the completion of new operating and administration buildings.

A total capital expenditure of $23 million is planned for 1968. The major portion will be for system expansion and the remainder for the continuing program of replacing cast iron mains and improvement of the system, including the cross-town feeder and peak shaving facilities.

Gas Supply

The present daily contracted demand is 112,000 mcf. A contract for new gas has been negotiated for delivery of an additional 32,500 mcf per day, to begin November 1, 1968. This contract will increase by annual increments to 56,000 mcf additional per day in 1972, for a total volume under contract of 168,000 mcf per day.

In addition to contracting for an adequate supply of gas, studies indicate the need for extensive peak shaving facilities. For the short term, winter peaking service is being provided by Trans-Canada Pipe Lines Limited, as well as by the propane-air plant and holder storage. As these combined sources are inadequate to meet future requirements, plans are now being finalized to build a liquefied natural gas storage plant to provide peak shaving gas for the 1969-70 heating season.

Acquisitions

The gas distribution system and propane-air mixing plant of the City of Sherbrooke was purchased in September, 1967, by Gaz du Québec, Inc., a wholly owned subsidiary of the Company.

Negotiations are progressing for the purchase from Laduboro Oil Limited, and its subsidiary, Radisson Natural Gas Company Limited, of the proven natural gas reserves of these companies and the transmission line which serves a number of industrial customers in the Trois-Rivières area.

R B Craddock

R. B. Craddock
Chairman of the Board,
Quebec Natural Gas Corporation

CANADIAN INDUSTRIAL GAS & OIL LTD.

Edward A. Galvin

RESULTS

A most favourable year was recorded for Canadian Industrial Gas & Oil Ltd. in 1967 and all phases of the Company's operations experienced significant growth. Revenue increased by 8.9% to $21,268,000 in 1967 from $19,528,000 in 1966. Net income increased 10.9% to $6,151,000 from the 1966 net income of $5,547,000.

Exploration—Oil and Gas

Exploration and development again featured prominently in the Company's activities during the year with acquisition of lands in several new areas and participation in the drilling of sixty-eight wells. In the northwestern Alberta Keg River basin, a second excellent oil well was completed at North Zama, offsetting the discovery made in late 1966. Additional seismic surveys were undertaken which resulted in an interest being acquired in 8,000 acres of petroleum and natural gas holdings at North Zama. Two drillsites were defined on the Company's Hay Lakes holdings and drilling operations will commence early in 1968.

A 20% interest is held in 50,000 acres of petroleum and natural gas leases in British Columbia in an area considered to be an extension of the Rainbow basin. An outside company has completed a seismic program on these lands and has commenced drilling a deep exploratory well to earn an interest in a limited amount of acreage. Several other companies have announced plans for drilling in the vicinity of Company holdings during the 1968 winter season.

CIGOL is a participant in the large Arctic Islands exploration program announced late in 1967 by Panarctic Oil Ltd. The initial undertaking of the consortium, of which CIGOL is a member, covers a period of four years and will involve the expenditure of approximately $20,000,000 on lands totalling 44,000,000 acres.

Through its wholly-owned subsidiaries, Canadian Industrial Gas (U.K.) Limited and Northern and Central Gas (U.K.) Limited, the Company holds interests in four production licences in the British sector of the North Sea, totalling approximately 770,000 acres. Two wells were drilled during 1967 and a third was commenced shortly before year end and has since been abandoned. Plans have not yet been finalized for the 1968 North Sea program.

Basic exploration surveys were carried out during 1967 on large acreage blocks in Saskatchewan in which CIGOL acquired an interest during 1966 and early 1967. Several exploratory tests will be drilled on these lands in the early part of 1968.

During the latter part of the year, the Company participated in the drilling of two wells in southern Alberta which resulted in an oil discovery and a gas discovery. Further evaluation of these discoveries is planned during 1968.

At year end, CIGOL held an interest in 8,411,515 gross acres, equal to 2,802,253 net acres, located in Western Canada, Ontario, Quebec, the Arctic Islands and the North Sea. A gross royalty interest is also held in 1,134,847 acres.

Exploration—Minerals

Geophysical surveys were conducted on the Company's exploration licence in Anglesey, North Wales, for which a diamond drilling program was set up for 1968. A large exploratory licence was acquired in the uranium area of northern Saskatchewan and an airborne radioactivity survey commenced. Results to date of this survey warranted the staking of an additional 400 mineral claims. The Company also participated in geochemical surveys in the Yukon Territory and the Lake Abitibi area of Ontario and Quebec.

Acquisitions

Acquisitions again played a large role in replacing and increasing CIGOL's oil and gas reserves.

Oil reserves were purchased for cash in the Pembina, Joarcam and Excelsior fields while substantial gas reserves were purchased in the Bittern Lake, East Crossfield, Nevis, Westlock and Ghost Pine areas, all in Alberta.

A major acquisition was effected October 1, 1967, when the Company purchased all of the Canadian producing properties, non-producing acreage and other assets of Camerina Petroleum Corporation. These important oil properties include interests in the Weyburn field in Saskatchewan and the Inverness, Swan Hills, Joffre and Buffalo Lake fields in Alberta. As a result of this acquisition, substantial interests in gas producing properties are now held in the Ghost Pine and Nevis fields in Alberta and the D'Clute field in Ontario. It is estimated that these properties will generate a net annual revenue of $720,000 in 1968.

Liquefied Petroleum Gas

Despite generally warmer weather, the Company's wholly-owned subsidiary, CIGAS Products Ltd., increased its sales from 35.6 million gallons to 37.6 million gallons of

liquefied petroleum gas in 1967. CIGAS is participating with Western Propane Inc., in which it holds a 50% interest, in a refrigerated storage project for propane and butane, located in the State of Washington. The Pacific Northwest is an area deficient in winter storage for liquefied petroleum gas and the availability of locally stored product is expected to assist market development. New and expanded gas processing plants in Alberta are expected to provide better availability of product through 1968 and 1969, permitting expansion in markets served by CIGAS.

Industrial Natural Gas System

The industrial natural gas division increased sales from 33,424,000 mcf to 35,695,000 mcf for the year. The larger sales have required the expansion of facilities and reserves. In addition to increasing reserves by cash purchase, gas has been obtained through gas purchase contracts with other producers. To tie in these additional gas reserves, a 46 mile 10 inch and 8 inch gas transmission line was constructed during 1967.

Production and Reserves

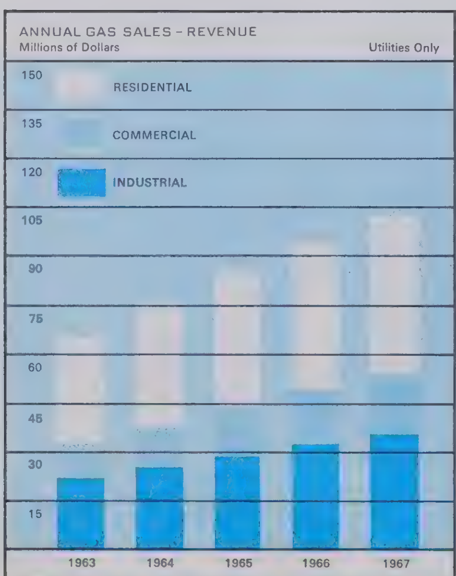
The production of oil and gas increased by 6.4% and 5.5% respectively. Net annual oil production increased from 2,609,300 barrels to 2,780,500 barrels, while net annual gas production increased from 24,281,000 mcf to 25,598,500 mcf.

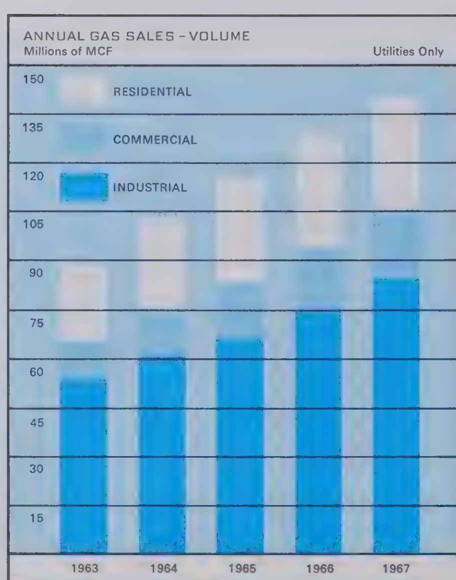
CIGOL's oil and gas reserves also improved during the year. Oil reserves, when consolidated with those of Prairie Oil Royalties Company, Limited, increased from 41,900,000 barrels to 43,800,000 barrels and gas reserves increased from 525,000,000 mcf to 590,000,000 mcf.

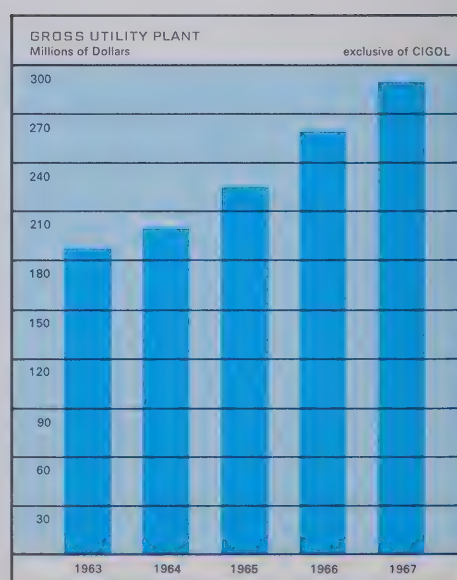
Summary

While Canadian Industrial Gas & Oil Ltd. experienced a most favourable year in 1967, forecasts indicate that all operations, together with the net earnings of the Company, will continue this significant growth rate through 1968.

E. A. Galvin
President,
Canadian Industrial Gas & Oil Ltd.







CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

for the year ended December 31, 1967 (thousands of dollars)

	1967	1966
Revenue		
Sales	$ 87,125	$ 77,716
Gain on disposal of investments	231	443
	87,356	78,159
Expenses		
Operations and maintenance	56,799	50,670
Depreciation, depletion and amortization	7,521	6,408
Taxes, other than income taxes	1,668	1,337
Interest	7,040	5,962
Amortization of debt and capital stock expense	243	222
Other	—	118
	73,271	64,717
Income before the following	14,085	13,442
Provision for income taxes (Note 10)	1,298	1,443
Portion of loss incurred by Quebec Natural Gas Corporation since acquisition (Note 2)	110	—
Provision for minority interests (Note 2)		
Preference dividends of subsidiary companies	1,058	356
Common share earnings of subsidiary companies	426	3,208
	2,892	5,007
Net Income	11,193	8,435
Retained earnings at beginning of year	10,312	6,489
	21,505	14,924
Dividends on preference shares	1,238	760
Dividends on common shares	4,431	3,021
Amortization of acquisition premiums (Note 6)	494	320
Subsidiary acquisition costs	175	511
Adjustment of prior years' income	111	—
	6,449	4,612
Retained Earnings at End of Year (Note 8)	$ 15,056	$ 10,312

CONSOLIDATED BALANCE SHEET

as at December 31, 1967
(thousands of dollars)

ASSETS	1967	1966
Property, Plant and Equipment, at cost (Note 3)	$375,434	$212,223
Accumulated depreciation and depletion	66,496	36,680
	308,938	175,543
Investments		
Marketable securities, at cost which approximates quoted market	2,482	3,129
Affiliated companies—shares at cost and advances	896	809
Mortgages receivable	5,542	592
Other	1,290	468
	10,210	4,998
Current Assets		
Cash	2,850	1,174
Accounts receivable	19,136	13,010
Unbilled gas sales (Note 4)	4,533	1,175
Materials and supplies, at cost	6,669	2,140
Prepayments, advances and deposits	1,777	467
	34,965	17,966
Deferred Charges, less amortization (Note 5)		
Debt and capital stock issue expense	9,343	4,167
Conversion costs	2,811	521
Other	1,109	175
	13,263	4,863
Premiums Incurred on the Acquisition of Subsidiary Companies, less amortization (Note 6)	36,971	12,327
	$404,347	$215,697

Signed on behalf of the Board:
C. Spencer Clark, Director.
Edmund C. Bovey, Director.

SHAREHOLDERS' EQUITY		1967	1966
Capital Stock			
Authorized			
599,525	First preference shares with a par value of $50 each, issuable in series		
1,991,875	Second preference shares with a par value of $25 each, issuable in series		
30,000,000	Common shares without par value		
Issued (Notes 1 and 7)			
156,325	$2.60 cumulative first preference shares, first series, currently redeemable at $52.50 per share	$ 7,816	$ 8,000
42,992	$2.70 cumulative first preference shares, second series, currently redeemable at $51.50 per share	2,150	—
308,650	$1.06 cumulative convertible second preference shares, series A, redeemable at $27.50 per share	7,716	7,919
1,320,000	$1.50 cumulative convertible second preference shares, series B, redeemable at $26.50 per share	33,000	—
11,430,586	Common shares	53,460	51,606
Retained Earnings (Note 8)		15,056	10,312
		119,198	77,837
Contributions in Aid of Construction		1,705	277
LIABILITIES			
Minority Interests in Subsidiary Companies (Note 9)		30,943	12,184
Long-Term Debt		215,160	101,998
Current Liabilities			
Bank indebtedness (includes $5,875 secured)		6,418	7,552
Accounts payable and accrued		18,085	10,805
Accrued interest		2,264	793
Income and other taxes		798	724
Current maturities on long-term debt		9,146	2,984
Other		630	543
		37,341	23,401
		$404,347	$215,697

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended December 31, 1967
(thousands of dollars)

	1967	1966
Source of Funds		
From operations		
Net income	$ 11,193	$ 8,435
Charges not requiring funds (depreciation, depletion, amortization and provision for minority interests)	10,506	4,876
	21,699	13,311
Issue of funded debt	31,983	12,000
Issue of preference shares	35,150	—
Issue of common shares		
For cash	107	22
Under share exchange offers	1,748	25,305
Increase in bank loans and other long-term debt	11,894	4,500
Working capital of subsidiaries at dates of acquisition (2)	3,750	3,460
	106,331	58,598
Application of Funds		
Additions to property, plant and equipment (net)	45,177	25,916
Retirement of funded debt	8,806	2,442
Dividends on common shares	4,431	3,021
Dividends on preference shares	1,238	760
Acquisition of shares of subsidiary companies	38,017	26,242
Financing expenses and other deferred charges	3,466	361
Mortgages receivable	1,835	317
Other items (net)	302	1,494
	103,272	60,553
Increase (Decrease) in Working Capital Position	$ 3,059	$ (1,955)

(1) The source and application of funds of subsidiary companies have been included from the dates of acquisition.
(2) Working capital of subsidiaries at the dates of their acquisition (Quebec Natural Gas Corporation in 1967 and Canadian Industrial Gas & Oil Ltd. in 1966) is reflected as a separate item.

STATEMENT OF LONG-TERM DEBT

as at December 31, 1967
(thousands of dollars)

	Year of Maturity	Due Within One Year	1967	1966
Funded Debt				
Northern and Central Gas Corporation Limited				
First Mortgage and Collateral Trust Bonds				
6% Series	1978	$ 316	$ 4,687	$ 5,003
5½% Series	1978	234	3,464(1)	3,698(1)
5¾% Series	1982	225	4,100	4,325
5¾% Series	1983	225	5,325	5,550
6½% Series	1986	450	12,000	12,000
6% Notes	1975	140	1,580(1)	1,720(1)
6% Subordinated Notes	1987	—	6,500(1)	—
5¾% Subordinated Debentures	1982	250	7,250	7,400
6% Subordinated Debentures	1982	212	6,602	6,682
6% Subordinated Sinking Fund Debentures	1985	235	4,230	4,465
6½% Subordinated Sinking Fund Debentures	1988	687	25,000	—
Greater Winnipeg Gas Company				
First Mortgage Bonds				
5¾% Series A	1978	162	5,525	5,688
6% Series B	1981	125	4,625	4,750
6% Series C	1982	125	4,750	4,875
5¾% Series D	1984	163	6,500	6,500
6% Debentures	1979	75	2,050	2,125
5½% Subordinated Debentures	1980	45	1,695	1,695
Canadian Industrial Gas & Oil Ltd.				
5⅞% First Mortgage Sinking Fund Bonds	1983	325	11,000(1)	11,000(1)
6% Notes	1971	105	236	320
Quebec Natural Gas Corporation				
First Mortgage Bonds				
6% Series	1980	620	10,729	—
5½% Series	1980	404	7,001(1)	—
6% Series	1987	246	7,688	—
5½% Series	1987	120	3,760(1)	—
6% Series	1988	135	4,365	—
7% Series	1990	—	6,000	—
General Mortgage Bonds				
6¼% Series B	1969	750	1,500	—
6% Series G	1988	250	10,000	—
6% Series I	1989	—	2,500	—
5¾% Subordinated Debentures	1985	500	19,000	—
Premium on U.S. funds		67	2,055	845
Demand Bank Loans				
Northern and Central Gas Corporation Limited			10,495(3)	12,000(2)
Canadian Industrial Gas & Oil Ltd. (secured by producing properties)		1,892	8,633(4)	3,750
Quebec Natural Gas Corporation			13,000(3)	—
Other				
Mortgages	1984	—	234	241
Interest-free purchase agreement	1970	63	227	350
		$ 9,146	224,306	104,982
Current Maturities on Long-Term Debt			9,146	2,984
			$215,160	$101,998

NOTES: (1) Stated in U.S. funds.
(2) Repaid out of proceeds of 1967 funded debt issue.
(3) The company proposes to repay these demand loans out of the proceeds of long-term financing.
(4) Includes $5,950,000 payable on properties acquired during the year. This amount was financed in January, 1968 by a long-term bank loan.
(5) Long-term debt maturities and sinking fund requirements for each of the four years subsequent to 1968 are as follows:—
1969 — $9,899,000   1970 — $9,224,000   1971 — $8,625,000   1972 — $8,514,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 1967

1. AMALGAMATION AGREEMENT

The three Ontario gas distribution companies, Northern and Central Gas Company Limited ("Northern") and its subsidiaries, Lakeland Natural Gas Limited ("Lakeland"), and Twin City Gas Company Limited ("Twin City"), entered into an amalgamation agreement which resulted in the creation of a new company, Northern and Central Gas Corporation Limited, ("the Company") on January 1, 1968. These financial statements reflect conversions of shares arising out of the amalgamation as follows:

(a) Conversion of the common and preference shares of Northern into common and equivalent preference shares of the Company in every case on the basis of 1 for 1.

(b) Conversion of $20 par value 5.4% cumulative preference shares of Lakeland into $50 par value $2.70 cumulative first preference shares, second series, of the Company on the basis of 2½ for 1.

(c) Conversion of 15,682 common shares of Lakeland held by minority shareholders, into 10,454 common shares of the Company on the basis of 3 for 2.

(d) Conversion of 7,675 common shares of Twin City held by minority shareholders, into 9,594 common shares of the Company on the basis of 4 for 5.

2. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of Northern and Central Gas Corporation Limited for the year ended December 31, 1967 include the accounts of all its subsidiaries. For the major subsidiaries included, the percentage ownership acquired during 1967 and the percentage ownership at December 31, 1966 and 1967 are as follows:

	Owned at Dec. 31, 1966	Acquired in 1967	Owned at Dec. 31, 1967
Canadian Industrial Gas & Oil Ltd.	86.1%	4.8%	90.9%
Greater Winnipeg Gas Company	98.9%	0.2%	99.1%
Quebec Natural Gas Corporation	—	65.2%	65.2%

The Company acquired 60.3% of the common shares of Quebec Natural Gas Corporation as of March 23, 1967 under its share purchase offer. A further 4.9% was acquired in the open market.

The consolidated statement of income and retained earnings for the year ended December 31, 1967 reflects the operations of the Company and all its subsidiaries except those of Quebec Natural Gas Corporation. The Company's portion of that subsidiary's loss for the period from the date of acquisition to December 31, 1967 is reported as a separate item in the statement of income.

For comparative purposes, the 1966 income figures have been restated from those previously reported to reflect the full operations of Canadian Industrial Gas & Oil Ltd. (acquired during 1966) with the provision for minority interest reducing the Company's share of that subsidiary's net income to the proportion that was earned by the Company from the dates of acquisition.

The provision for minority interests for 1966 has been restated to include preference dividends of a subsidiary in the amount of $120,000 previously shown in consolidated retained earnings.

3. PROPERTY, PLANT AND EQUIPMENT

Fixed assets at December 31, 1967 consist of the following:

Land and buildings		$ 16,951,220
Oil and gas production systems (including properties, pipelines, processing plants and equipment)		86,567,480
Gas storage facilities		2,093,228
Gas distribution systems (including mains, services, meters and stations)		222,973,960
Equipment on customers' premises		20,872,061
Other		20,154,298
Work in progress		5,822,082
		375,434,329
Accumulated depreciation	$ 50,013,250	
Accumulated depletion	16,483,270	66,496,520
		$308,937,809

Cost of gas and oil properties is determined by capitalizing all costs related to the exploration for and development of gas and oil reserves, whether productive or non-productive.

Utility plants are being depreciated over their estimated useful lives. Gas and oil properties are being depleted on a composite unit-of-production method based on total estimated reserves.

NOTES CONTINUED

4. UNBILLED GAS SALES

The Company and its subsidiaries, except Greater Winnipeg Gas Company, account for unbilled gas sales at selling price. Greater Winnipeg Gas Company does not account for unbilled gas sales.

5. DEFERRED CHARGES

Debt and capital stock issue expenses are being amortized over periods not exceeding 25 years.
Conversion costs, representing costs of converting customers to natural gas, are being amortized over periods not exceeding 10 years.
Other deferred charges consist of:

Rate hearing expenses	$ 551,952
Reorganization expenses	129,233
Excess gas costs	149,547
Preliminary surveys, etc.	278,529
	$ 1,109,261

Rate hearing expenses are being amortized over a five year period.
Excess gas costs are due to the delay in construction of gas supply facilities and will be amortized over the term of the gas supply contract commencing with the initial deliveries from the new facilities.

6. PREMIUMS INCURRED ON THE ACQUISITION OF SUBSIDIARY COMPANIES

These premiums were incurred by acquiring common shares of certain subsidiary companies at approximate market values which were in excess of the net book values of these shares. These premiums are being amortized to retained earnings at a rate approximating that used to depreciate the Company's utility plant. Amortization of the premium on shares of Quebec Natural Gas Corporation will commence in 1968.

Premiums on additional shares of Canadian Industrial Gas & Oil Ltd. and Greater Winnipeg Gas Company acquired for cash in 1967 have been written off in full.

7. CAPITAL STOCK

The shares of various classes of capital stock of the Company issued or redeemed during 1967 are summarized as follows:

	First Preference Shares				Second Preference Shares					
	First Series		Second Series		Series A		Series B		Common Shares	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Balance December 31, 1966	160,000	$8,000,000	—	—	316,775	$7,919,375	—	—	11,126,604	$51,605,555
Issued for cash										
Public offering							1,320,000	$33,000,000		
Incentive stock option plan									2,800	29,575
Employees' share purchase plan									5,646	77,609
Issued in exchange for shares of										
Canadian Industrial Gas & Oil Ltd.									275,488	1,631,250
Twin City Gas Company Limited (amalgamation—Note 1)									9,594	62,269
Lakeland Natural Gas Limited (amalgamation—Note 1)			42,992	$2,149,600					10,454	54,100
Redeemed	(3,675)	(183,750)			(8,125)	(203,125)				
Balance December 31, 1967	156,325	$7,816,250	42,992	$2,149,600	308,650	$7,716,250	1,320,000	$33,000,000	11,430,586	$53,460,358

The first preference shares, first and second series do not have voting rights under present conditions.
The second preference shares, series A are convertible into a maximum of 493,840 common shares.
The second preference shares, series B are convertible into a maximum of 2,376,000 common shares.

40,000 common shares of the Company have been reserved under the provisions of the employees' share purchase plan, of which 6,117 common shares have been issued to date. At December 31, 1967, subscriptions to purchase 4,242 common shares at prices ranging from $9.76 to $12.29 per share were outstanding.

The consideration for the common shares issued in exchange for shares of Canadian Industrial Gas & Oil Ltd. and to former minority shareholders of Lakeland and Twin City, was equivalent to the net book value of the shares acquired.

The Company has reserved 219,500 common shares for possible issuance in exchange for 219,500 common shares of a subsidiary presently under option to certain employees of that subsidiary.

NOTES CONTINUED

Warrants and employees' options with respect to the Company's common shares are summarized as follows:

	Balance Outstanding Dec. 31, 1966	Issued or Granted	Exercised	Expired	Balance Outstanding Dec. 31, 1967	Price per Share	Expiry Date
Warrants	20,000				20,000	$ 9.25	February 21, 1969
		625,000			625,000	14.00	June 1, 1977
		175,500			175,500	14.00	August 1, 1977
	20,000	800,500			820,500		
Stock Option Plans	2,800		2,800				
	9,000				9,000	14.625	May 12, 1970
	146,000				146,000	15.3125	January 11, 1971
	143,500			13,000	130,500	16.00	February 10, 1971
	10,000				10,000	14.01325	May 17, 1971
	100,500				100,500	12.94	July 11, 1971
	19,500				19,500	12.94	April 6, 1972
		50,000			50,000	12.75	October 5, 1972
	431,300	50,000	2,800	13,000	465,500		
	451,300	850,500	2,800	13,000	1,286,000		

Subsequent to December 31, 1967, an additional 21,000 common share options were granted at a price of $11.875 per share, expiring January 8, 1973.

The Company has reserved 600,000 common shares under its stock option plans.

8. DIVIDEND RESTRICTIONS

Under the terms of the Deed of Trust and Mortgage, as amended, securing the Company's First Mortgage and Collateral Trust Bonds, the Company is restricted as to the amount of dividends that can be declared or paid. As at December 31, 1967, retained earnings in the amount of $13,100,000 were so restricted.

9. MINORITY INTERESTS IN SUBSIDIARY COMPANIES

Minority interests are applicable to:

Preferred shares of subsidiaries	$21,494,770
Common share equity of subsidiaries	9,448,136
	$30,942,906

Canadian Industrial Gas & Oil Ltd. has 399,477 preferred shares ($10 par value) outstanding at December 31, 1967, which are convertible into common shares on a basis of four common shares for five preferred shares until July 1, 1973, thereafter redeemable at par. At December 31, 1967, there were options outstanding to purchase 219,500 common shares at a price of $10 per share exercisable at various times to October 26, 1973.

Quebec Natural Gas Corporation has reserved 364,120 common shares for possible issuance against the exercise of warrants at prices from $9.50 to $15.00 during the next 9 years.

10. INCOME TAXES

As a result of the Company's intention to claim for tax purposes (1) depreciation in excess of that recorded in the accounts, and (2) certain capitalized and deferred expenses that must be claimed in the year incurred, the provision for income taxes has been reduced by approximately $4,900,000 in 1967 and $2,612,000 in 1966. These differences may be applicable to future periods in the event amounts that can be claimed for tax purposes are less than those recorded in the accounts. The accumulated amount by which income taxes have been so reduced in this and prior years is approximately $23,400,000.

For regulatory purposes, the Company intends to claim only those income taxes paid or payable during the year.

11. CAPITAL EXPENDITURES

It is estimated that the companies will expend approximately $45,000,000 on capital projects during the year ending December 31, 1968.

12. CONTINGENT LIABILITY

A suit for rentals of $120,000 per annum from November 27, 1959, plus interest, has been filed by the National Harbours Board against Quebec Natural Gas Corporation. The amount claimed is being contested, and a reasonable provision for such rental has been made in the accounts.

13. DIRECTORS' AND SENIOR OFFICERS' REMUNERATION

The remuneration of directors and senior officers of the Company aggregated $526,000 in 1967.

RIDDELL, STEAD, GRAHAM & HUTCHISON
CHARTERED ACCOUNTANTS

48 YONGE STREET
TORONTO 1, ONTARIO

AUDITORS' REPORT

To The Shareholders
Northern and Central Gas Corporation Limited

We have examined the consolidated balance sheet of Northern and Central Gas Corporation Limited and its subsidiaries as at December 31, 1967 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of Northern and Central Gas Corporation Limited and those subsidiaries of which we are auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of the other subsidiary.

In our opinion these consolidated financial statements when read in conjunction with Notes 1 and 2 present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and application of their funds in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Riddell, Stead, Graham & Hutchison

February 2, 1968

CONSOLIDATED STATEMENT OF INCOME

for the twelve months ended December 31, 1967
(thousands of dollars)

	1967	(Note 3) 1966
Revenue		
Gas sales and other income	$38,504	$36,602
Expenses		
Operations and maintenance	27,577	27,090
Coke operation—net (credit)	(308)	(793)
Depreciation (Note 5)	2,412	2,281
Amortization	466	466
Taxes, other than income taxes	1,627	1,290
Interest on long-term debt	4,423	4,236
Other interest	352	24
Amortization of debt discount and expense	178	140
	36,727	34,734
Net Income (Note 4)	$ 1,777	$ 1,868

The accompanying notes are an integral part of this statement.

AUDITORS' REPORT

To the Directors,
Quebec Natural Gas Corporation,
1717 Du Havre, Montreal, Que.

We have examined the consolidated statement of income of Quebec Natural Gas Corporation and subsidiary companies for the twelve months ended December 31, 1967. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

As explained in Note 2 to the financial statement, the fiscal year of the Corporation was changed to December 31, commencing with 1967. We examined the Consolidated Statement of Income of the Corporation for the six months to December 31, 1966, but did not conduct an examination of the accounts for the first six months of 1966 as such. Consequently we are unable to express an opinion on the results of the operations for the twelve months to December 31, 1966, although we have no reason to believe that these comparative figures are not fairly presented.

Subject to the comment contained in the preceding paragraph with respect to the comparative figures for 1966, in our opinion, this consolidated statement of income presents fairly the results of the operations of the company and subsidiary companies for the twelve months ended December 31, 1967, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Samson, Bélair, Côté, Lacroix et Associés,
Chartered Accountants.

Peat, Marwick, Mitchell & Co.,
Chartered Accountants.

Montreal, Que.
February 2, 1968.

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

for the twelve months ended December 31, 1967

1. PRINCIPLES OF CONSOLIDATION

The consolidated statement of income of Quebec Natural Gas Corporation (the "Company") for the twelve months ended December 31, 1967, includes the accounts of Gaz du Québec, Inc., formerly St. Lawrence Valley Gas Company Limited and of Hochelaga Development Company Ltd., two wholly-owned subsidiaries.

Gaz du Québec, Inc. started its operations on September 14, 1967, after acquiring the gas distribution system of the City of Sherbrooke on September 13, 1967.

2. FISCAL YEAR-END

During the period, the Company's fiscal year-end was changed from June 30 to December 31. The accounts for the twelve months ended December 31, 1967, are compared with those for the twelve months ended December 31, 1966; the consolidated statement of income for the year ended December 31, 1966, has not been audited as such.

3. RECLASSIFICATION

Certain figures for 1966 have been reclassified on the statement to conform with those for 1967.

4. INCOME TAXES

For federal income tax purposes, accumulated losses which may be offset against future taxable income, have been adjusted at December 31, 1967, to approximately $3,110,000.

For provincial income tax purposes all available losses from prior years have been utilized.

5. DEPRECIATION

In addition to the depreciation shown in the consolidated statement of income, depreciation of $213,869 in respect of automotive equipment was charged to property, plant and equipment and to other accounts.

6. DIRECTORS' AND SENIOR OFFICERS' REMUNERATION

The remuneration of directors and senior officers of the Company aggregated $221,231 for the twelve months ended December 31, 1967.

NORTHERN AND CENTRAL GROUP OF COMPANIES

Northern and Central Gas Corporation Limited,
4600 Toronto-Dominion Centre, Toronto 1, Ontario.

- **Northern Ontario Natural Gas,**
  4600 Toronto-Dominion Centre, Toronto 1, Ontario.
- **Twin City Gas,**
  135-137 North Syndicate Avenue, Fort William, Ontario.
- **Lakeland Natural Gas,**
  P.O. Box 1087, Gardiners Road, Kingston, Ontario.

Greater Winnipeg Gas Company,
265 Notre Dame Avenue, Winnipeg 2, Manitoba.

Le Gaz Provincial du Nord de Québec Ltée,
9 est rue Perreault, Rouyn, Québec.

Quebec Natural Gas Corporation,
1717, rue du Havre, Montréal 24, Québec.

Canadian Industrial Gas & Oil Ltd.,
640 Eighth Avenue, S.W., Calgary, Alberta.

Champion Pipe Line Corporation Limited,
4600 Toronto-Dominion Centre, Toronto 1, Ontario.

Northern Ontario Acceptance Company Limited,
4600 Toronto-Dominion Centre, Toronto 1, Ontario.

- **Compagnie de Finance du Nord du Québec Limitée,**
  9 est rue Perreault, Rouyn, Québec.

Nortwin Development Company Limited,
4600 Toronto-Dominion Centre, Toronto 1, Ontario.

Northern and Central Realty Limited,
4600 Toronto-Dominion Centre, Toronto 1, Ontario.

Canadian Lear Jet Limited,
4600 Toronto-Dominion Centre, Toronto 1, Ontario.

Transfer Agents

First Preference Shares, First Series
First Preference Shares, Second Series

- **Montreal Trust Company**
  Montreal, Que. • Toronto, Ont.
  Winnipeg, Man. • Calgary, Alta.
  Vancouver, B.C.

Second Preference Shares, Series A
Second Preference Shares, Series B

- **National Trust Company, Limited**
  Toronto, Ont. • Montreal, Que.
  Winnipeg, Man. • Calgary, Alta.
  Vancouver, B.C.

First and Second Preference Shares Listed on Toronto Stock Exchange

Common Shares

- **National Trust Company, Limited**
  Toronto, Ont. • Montreal, Que.
  Calgary, Alta. • Vancouver, B.C.
- **Montreal Trust Company**
  Winnipeg, Man.
- **Chemical Bank New York Trust Company**
  New York, N.Y., U.S.A.

Common Shares Listed on Toronto, Montreal, Winnipeg and Vancouver Stock Exchanges

Printed in Canada on Paragon Offset Brilliant

NORTHERN AND CENTRAL GAS CORPORATION LIMITED AND SUBSIDIARY COMPANIES

EIGHT YEAR STATISTICAL COMPARISON (NOTE 1)

	1967	1966	1965	1964	1963	1962	1961	1960
INCOME (Thousands of Dollars)								
OPERATING REVENUES								
Gas Sales								
Industrial firm	$ 20,238	11,767	9,848	6,291	5,424	4,681	4,472	3,828
Industrial, subject to curtailment	12,298	9,081	9,093	6,325	6,048	5,997	5,274	5,403
Commercial	18,417	11,798	10,463	3,592	3,176	2,660	2,125	1,555
Residential	45,583	23,469	21,407	7,755	6,656	5,372	3,912	2,401
Resale	3,586	—	—	—	—	—	—	—
Other	2,943	1,670	1,369	450	306	130	54	8
Production Sales (Note 2)	21,268	19,528	—	—	—	—	—	—
Total Operating Revenue	$ 124,333	77,313	52,180	24,413	21,610	18,840	15,837	13,195
OPERATING EXPENSES AND TAXES								
Gas purchased	$ 55,971	33,024	29,930	16,028	14,024	12,556	10,635	9,414
Operations and maintenance	28,232	17,646	6,666	2,652	2,524	2,074	1,864	1,088
Depreciation, depletion and amortization	10,188	6,408	2,880	1,091	946	713	430	361
Taxes—other than income	3,295	1,337	1,180	341	278	259	230	216
Taxes—income	1,289	1,443	1,089	9	8	8	8	9
Total Operating Expenses	$ 98,975	59,858	41,745	20,121	17,780	15,610	13,167	11,088
Operating Income	$ 25,358	17,455	10,435	4,292	3,830	3,230	2,670	2,107
OTHER INCOME	1,445	845	453	97	113	178	221	170
Total Operating and Other Income	$ 26,803	18,300	10,888	4,389	3,943	3,408	2,891	2,277
INTEREST AND OTHER DEDUCTIONS								
Interest	$ 11,737	5,962	4,339	2,163	2,086	1,723	1,536	1,375
Amortization of deferred charges	425	222	203	135	128	99	69	38
Provision for minority interest	2,123	1,238	294	16	15	19	43	26
Other	77	117	68	52	153	90	—	—
Total Interest and Other Deductions	$ 14,362	7,539	4,904	2,366	2,382	1,931	1,648	1,439
NET INCOME	$ 12,441	10,761	5,984	2,023	1,561	1,477	1,243	838
EARNINGS AND DIVIDENDS (Note 3)								
Dividend requirements on preference shares	$ 2,838,926	760,399	760,400	113,557	120,000	120,000	120,000	90,000
Earnings available for common shares	$ 9,601,830	10,000,527	5,223,192	1,909,620	1,441,088	1,356,673	1,123,164	747,720
Common shares outstanding at year-end	11,430,586	11,126,604	6,424,756	3,097,882	2,815,102	2,768,502	2,743,842	2,592,312
Earnings per common share	$ .84	.90	.81	.62	.51	.49	.41	.29
Cash dividends paid on common shares	$ 4,431,394	3,020,920	988,763	822,097	698,399	346,029	—	—
Cash dividend per common share	$ .39	.3375	.30	.275	.25	.125	—	—
SYSTEM DATA								
Miles of pipe at year-end—distribution and transmission	4,442	2,959	2,388	1,001	968	931	749	703
Expenditures for plant additions (000's)	$ 46,709	27,485	11,815	3,929	4,243	7,977	4,912	4,761
Active utility customers at year-end								
Industrial	1,916	423	402	106	110	96	92	88
Commercial	23,651	12,853	11,998	4,221	3,860	3,277	2,755	2,277
Residential	360,279	149,025	136,567	48,607	44,651	39,052	29,539	19,810
Total	385,846	162,301	148,967	52,934	48,621	42,425	32,386	22,175
GAS DELIVERIES								
Gas sales—M.C.F.								
Industrial firm	38,757,233	24,861,309	20,484,723	13,462,878	11,584,714	10,177,617	9,557,569	8,620,634
Industrial, subject to curtailment	33,664,700	25,455,022	25,290,613	17,229,234	16,507,127	16,584,077	14,713,547	14,761,365
Commercial	22,065,699	15,766,111	13,831,354	4,728,448	4,004,298	3,344,885	2,589,406	1,836,564
Residential	37,487,924	22,514,942	20,486,351	6,031,029	5,261,790	4,225,021	3,101,622	1,927,178
Resale	8,029,587	—	—	—	—	—	—	—
Total	140,005,143	88,597,384	80,093,041	41,451,589	37,357,929	34,331,600	29,962,144	27,145,741

Notes: (1) Included above are figures for the full year in which control was acquired and each succeeding year thereafter of subsidiary companies acquired during the period as follows:

Lakeland Natural Gas Limited	1965-1967
Greater Winnipeg Gas Company	1965-1967
Canadian Industrial Gas & Oil Ltd.	1966-1967
Quebec Natural Gas Corporation	1967

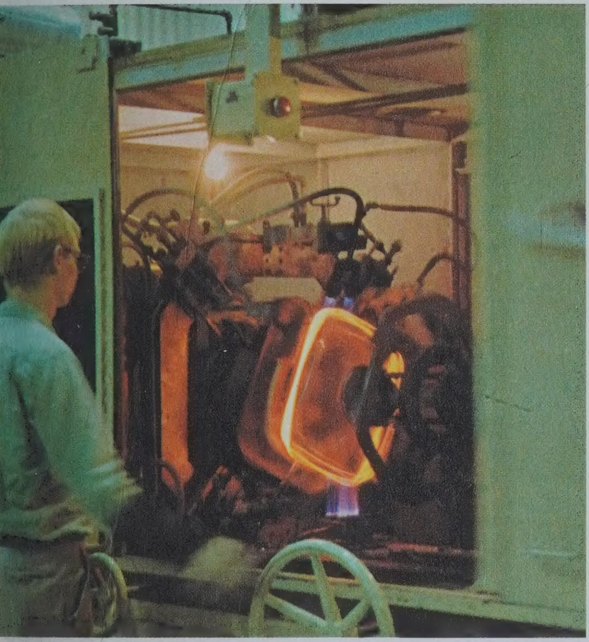
(2) Represents oil and gas production, industrial gas and liquefied petroleum gas sales of Canadian Industrial Gas & Oil Ltd.

(3) Restated to give effect to a 2 for 1 split of common shares in 1966.

Five year statistical information of individual companies is available upon request.

NORTHERN AND CENTRAL GAS CORPORATION LIMITED
AND SUBSIDIARY COMPANIES


NORTHERN AND CENTRAL GAS CORPORATION LIMITED
Communities served by:
Greater Winnipeg Gas Company
Twin City Gas
Northern Ontario Natural Gas
Le Gaz Provincial du Nord de Québec Ltée
Lakeland Natural Gas
Corporation de Gaz Naturel du Québec
Other Communities
Trans-Canada Pipe Lines
TARIO
NE
QUEBEC
U.S.A.
.A.
NORTHERN ZONE
CENTRAL ZONE
EASTERN ZONE
HEARST
MATTICE
KAPUSKASING
MOONBEAM
SMOOTH ROCK FALLS
COCHRANE
IROQUOIS FALLS
ANSONVILLE
MATHESON
MUNRO MINE
HOLTYRE
TEXAS-GULF
SCHUMACHER
TIMMINS
SOUTH PORCUPINE
PORCUPINE
KIRKLAND LAKE
RAMORE
NORANDA
ROUYN
ADAM MINE
ENGLEHART
EARLTON
NEW LISKEARD
HAILEYBURY
COBALT
SHERMAN MINE
FALCONBRIDGE
GARSON
COPPER CLIFF
CREIGHTON
LIVELY
SUDBURY
CONISTON
WARREN
STURGEON FALLS
NORTH BAY
SAULT STE. MARIE
HUNTSVILLE
BRACEBRIDGE
GRAVENHURST
ORILLIA
CENTRETON
CASTLETON
TORONTO
NIAGARA FALLS
LONDON
WINDSOR
BATAWA
TRENTON
COLBORNE
COBOURG
PORT HOPE
WESTBROOK
NAPANEE
BELLEVILLE
PICTON
AMHERSTVIEW
COLLINS BAY
CATARAQUI
KINGSTON
PINE HILL
GANANOQUE
PRESCOTT
CARDINAL
IROQUOIS
MORRISBURG
CORNWALL
WINCHESTER
OTTAWA
CHESTERVILLE
MONTREAL
SOREL
TRACY
SHERBROOKE



Major new industries continue to locate in the Northern and Central service area. Shown above is natural gas being used in the production of television tubes at the Corning Glass Works of Canada Ltd. plant at Bracebridge, Ontario.

In preparation for planned expansion of gas service east of Montreal and into the Eastern Townships of Quebec, the propane-air distribution system of the City of Sherbrooke was purchased in 1967. This city of more than 75,000 population occupies a key position in the economy of the area.

CIGOL increased oil and gas production in 1967 when 2,780,500 barrels of oil and 25,598,500,000 cubic feet of gas were produced. Seen above is the gas extraction plant of Canadian Industrial Gas & Oil Ltd. (CIGOL) at St. Albert, Alberta.

The $235 million project of Great Canadian Oil Sands Limited, at Fort McMurray, began production in 1967. When in full production, expected in the second quarter of 1968, substantial net revenues through royalties will be generated by Abasand Oils Limited, a wholly-owned CIGOL subsidiary.

NORTHERN AND CENTRAL GAS CORPORATION LIMITED

4600 Toronto-Dominion Centre, Toronto 1, Canada

1967